

13 May 2021

Hon Nanaia Mahuta  
Minister of Local Government

Tēnā koe Nanaia

Thank you for your letter received 5 May 2021 about the proposed three waters service delivery reform.

I am writing with further questions following the presentation by Alan Sutherland, Water Industry Commission for Scotland (WICS) to Auckland Council Governing Body on 3 May 2021 and to seek access to the assumptions and modelling that underpins the advice being provided to Cabinet for Auckland.

Alan Sutherland's presentation made the point that efficiencies to be gained from the proposed water reforms were based on three prerequisites:

1. Economic regulation
2. Good governance
3. Quality management

Alan Sutherland also noted that Watercare is performing very well in the New Zealand context but that it has room to improve. I am seeking your explanation of how DIA's proposed amalgamation will address any shortcomings in Watercare's management or governance. I do not understand why Watercare needs to be amalgamated and removed from Council's governance to achieve management efficiencies particularly with an economic regulator in place. I am not convinced that the proposed governance arrangements will achieve the efficiencies modelled, nor am I convinced that the change to remove the proposed water supply authority from democratic governance and oversight will be positive.

### **1. Economic regulation**

We support the introduction of economic regulation, which will apply to Watercare regardless of amalgamation, and note that much of the proposed water reform's success will be reliant on this. We believe that the introduction of an economic regulator should be a high priority on the Government's work programme and introduced in advance of 2024. We would like to be involved in discussions relating to the development of this regulator.

### **2. Good governance**

I am not convinced that the proposed governance arrangements will improve efficiency for Auckland. The governance model as explained to us, appears complex. Good governance requires simple, transparent decision making and accountability. Auckland Council's recent CCO Review highlighted the importance of clear strategic direction to any entity.

Current water reform proposals would reduce Auckland Council's influence and direction over the water service entity, limiting it to a role on the Governor's Representative Group that appoints an independent board selection panel and agreeing/issuing a letter of expectation.

Neither of these mechanisms can be relied upon to produce strong accountability mechanisms. The CCO Review panel highlighted that it is a combination of accountability mechanisms that drives performance.

The Governor's Representative Group will comprise representatives ranging from four to six local authorities and up to 50 iwi. Gaining consensus among all parties is likely to be a time consuming and expensive undertaking. In addition, the new water service entities will be required to produce a significant amount of reporting for stakeholders. It is not clear how in the proposed new structure elected representatives would be able to direct the water services priorities.

Our own experience with Watercare is that input from elected representatives has been important in setting water strategies such as greater emphasis on conserving water, in ensuring resilience of water supply and the need for longer term planning. Without elected representatives able to ensure real accountability and responsiveness, the organisation runs the risk of becoming self-centred with very highly paid executives and not hearing public concerns.

We have also been advised that Auckland's representation on any governance structure would not be proportionate to its size and input. This obviously doesn't make the amalgamation an attractive prospect for Auckland.

### **3. Quality management**

Alan Sutherland from WICS claimed that, in comparison to Scottish Water and UK water companies, Watercare could improve its efficiency by 50 percent. When tested on how these efficiencies could be achieved in Auckland, WICS gave descriptors of the likely areas based on what happened in Scotland. This included improved operations and processes and preventative maintenance. WICS have also referred to more effective asset management, procurement activities, office and depot rationalisation, refocusing of staff time and initial head count reduction. I cannot see why Watercare cannot achieve these efficiencies in their own right, without amalgamation if we were able to find other mechanisms available to deal with the financing constraints created by Council's debt to revenue ratio. Even with this constraint in our current 10-year budget, capital investment in Watercare has increased from \$4.7 billion in the 2018-2028 budget to \$8.1 billion for 2021-2031.

I encourage DIA staff to work further with Council staff to explore other options for increasing investment.

Watercare's lower efficiency relative to UK companies is explained in part, from lower investment in maintenance and renewals. This may be a product of Watercare keeping up with Auckland's significant population growth over the last 10 years. When resources (including capital) are constrained and the population is growing rapidly, investment in growth infrastructure will take priority over investment in maintenance and renewal. It is not clear how this emphasis would shift under a new water service entity.

I am concerned that if a new water service entity is required to upgrade and maintain lower quality assets over a wider geographic area there will be a real risk of not accommodating Auckland's growth and needs.

Water costs are much higher in the regions that it is proposed Auckland amalgamates with and their assets less well maintained. Effectively, amalgamation would result in Aucklanders (92% of the population in proposed entity A), meeting the costs of major upgrades in other regions and Auckland's priorities being put behind the needs of those other regions.

I hope the Government has an open mind in discussing with us alternative options for investment in infrastructure and the model of Auckland providing professional water services to other local authorities as it has done successfully with the Waikato District Council. This may be how we can best help our neighbours.

It is important to note that WICS ultimately put the responsibility onto the economic regulator to ensure efficiencies are achieved and not the amalgamation. I find it difficult to believe that with its size and scale and with the introduction of an economic regulator, Watercare would be unable to significantly improve its performance and meet the Government's desired outcomes in Auckland. Watercare is already bigger than the other water supply entities proposed and adding in the population of areas such as Northland, Hauraki and Thames-Coromandel (an additional 8 percent in population), would not seem to be the basis for increased efficiency or productivity, for Auckland.

In conclusion, as you note, Auckland has worked cooperatively with DIA in the work being undertaken and will continue to do so. However, the current structure proposed is unlikely to find favour with Auckland and its Council.

Ngā mihi

Phil Goff

**MAYOR OF AUCKLAND**

Copy to:       Hon Grant Robertson, Minister of Finance  
                  Rt Hon Jacinda Ardern, Prime Minister  
                  Hon Dr Megan Woods, Minister of Energy and Resources